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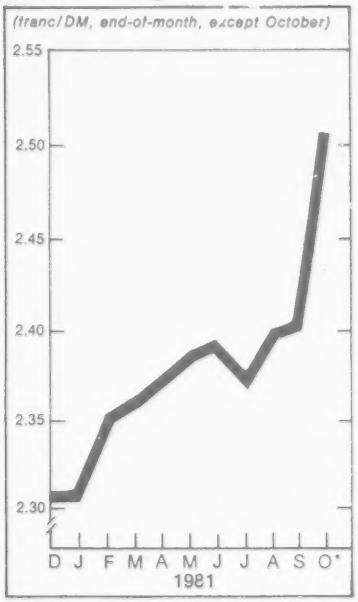
France's Commitment to Reflation Reaffirmed

The October 4 realignment of the central rate structure of the European Monetary System (EMS) should restore—for a time—the freedom of the French authorities to pursue a more consistent set of macroeconomic policies. In recent months, the Mitterrand government had been in a severe policy bind. The reflationary fiscal measures taken by the government encouraged adverse expectations about inflation and the balance of payments. This necessitated restrictive monetary actions by the Bank of France, in order to fulfill its commitment to defend the franc. A further widening of this rift between fiscal and monetary policy would have jeopardized the government's recovery program. The French authorities undoubtedly would have preferred to delay a franc devaluation within the EMS until the dollar began to exhibit significant weakness against the EMS currencies. But the unveiling on September 30 of the highly stimulative 1982 government budget posed the strong likelihood of accelerated reserve losses if the old parity had been defended further.

The French franc/DM exchange rate



* Oct. 5

Although the 8.5% devaluation of the franc against the mark in terms of EMS central rates was somewhat larger than anticipated, it is highly questionable whether the new parity will endure as long as the old (24 months). While Germany is strongly committed to relatively restrictive fiscal and monetary policies, the Mitterrand government appears just as intent on pursuing an expansionary course. The newly announced budget projects a 27% increase in government spending for fiscal 1982, implying a 35% increase in the budget deficit even if the rather optimistic 3% real economic growth target is met.

The government hopes to limit the inflationary consequences of these policies and of the devaluation by a series of direct controls—temporary price freezes on all service industries and on certain key consumer goods—and negotiations with labor and business over wage-price restraint. Although these tactics may well succeed in preventing a further acceleration of inflation in the short run, they will also tend to delay further the recovery of economic activity in the private sector. The hard reality is that current official targets with respect to growth and inflation are inconsistent, given the shift in inflationary expectations brought about by the initial policy actions of the Mitterrand government. If the government's overriding objective continues to be controlling unemployment, it seems unlikely that the newly announced franc/mark parity will survive the coming year.

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Sterling taking a pounding.

After nearly four years of continued strength, the British pound has turned shakey. Its trade-weighted index began to fall from the end of May, and each successive month has witnessed a further slide. September saw particularly strong selling pressures. The month closed with the exchange-rate index down some 10.4% from September 1980 and with the country's foreign-exchange reserves down $815 million. Concerned about the inflationary impact of the rising import bill that follows sterling weakness, the government has given a big push to market interest rates. Bank base (prime) rates jumped from 12% to 14% in mid-September and again to 16% on October 2. These increases lifted sterling slightly from its September lows, but the currency remains relatively weak. The market's reappraisal of the pound stems partly from the current weakness of the oil market and partly from a growing feeling that the depth of the U.K. recession—unemployment is 11.1% and rising, while industrial output is below its level in 1975—will force a more reflationary policy before long. However, the oil market often changes rapidly, and the economic news is not all bad. Inflation is much slower now than last year, with August wholesale prices up 10.1% from August 1980, and signs point to possible wage settlements in the just-begun annual wage round of approximately 8%. All in all, the outlook for sterling remains uncertain, which suggests that the British currency will exhibit volatility for the rest of the year.

Spanish concern over growing public deficit mounts.

Spanish attention is increasingly focused on the issue of public finances. Even prior to the onset of the current recession, the government's financial position was deteriorating steadily, with revenue growth failing to match the escalation in expenditures. The recent poor economic performance has underscored this trend. Rapidly rising unemployment (now 13.5%) has led to large increases in benefits payments, and the sluggish economy has limited revenue growth. As a result, the state deficit at the end of May stood at 348.3 billion pesetas (about $4 billion), more than double the end-May 1980 shortfall and well above the official target of pta. 435 billion for all of 1981. The 1982 draft budget forecasts a further widening of the deficit to almost 700 billion pesetas (3.5% of GDP) next year, with a 75% rise in the allocation for unemployment benefits. Meanwhile, the Spanish employers' federation has withdrawn from the previously negotiated tripartite wage and employment pact for 1982, in protest against the new budget that provides for a small increase in company taxes.

Finnish budget deficit looks set to widen.

The Finnish government is putting the final touches on its 1982 budget. With economic growth in 1982 expected to slow from 1981 and unemployment set to climb, the budget deficit would appear poised to widen substantially, given the prospect of reduced revenues and greater expenditures for social welfare. A debate has thus begun on ways to cut planned expenditures and boost revenue. It is expected that most of the public spending cuts will be investment-related. Whatever the outcome, it appears certain that the budget deficit will widen during 1982. Observers predict that the government will have to borrow about 6 billion markkaa next year ($1.3 billion, at the current exchange rate), compared with a borrowing requirement of 3.5 billion markkaa in 1981.

Brazilian trade balance moving toward annual surplus.

If present trends continue, Brazil could record a balance-of-trade surplus in 1981, its first since 1973. Since May, Brazil has posted monthly surpluses on its trade account, which have reduced the cumulative trade deficit for the first eight months of 1981 to just $36 million, as against almost $2.5 billion for the comparable 1980 period. Over this same eight-month period, export receipts rose by more than 18% while imports fell 0.7%. Export growth this year is being led by manufactured products and by non-coffee commodities. Indeed, Brazil is having considerable success with such new exports as frozen chicken, orange juice, and beef. Coffee export earnings, however, were down 35% from last

year because of the softness of prices. On the import side, the only major item that showed an increase was petroleum—which owes solely to price rises as volume was down more than 9%. Imports of chemicals and capital equipment were also down considerably in the January-August period, reflecting the tight reins on aggregate demand and the consequent industrial slowdown.

India anticipating reduction in its huge oil bill.

India's oil import bill skyrocketed in the fiscal year ended March 31, expanding by 76% to total $7 billion. This sum equalled 45% of imports, nearly 78% of export receipts, and 4% of GDP in fiscal 1980-81. India's high dependence on oil imports, combined with a 46% jump in the average price of crude oil and petroleum products and the embargo on shipments of crude oil and oil products from the eastern state of Assam, were the chief reasons. The Assam embargo alone necessitated the import of an extra 3.5 million tons of oil products last year at an additional cost of more than $1 billion. This year, with oil shipments from Assam resumed, increased output from the Bombay High field, and moderation in oil price rises, India's oil import bill is expected to decline to $6.7 billion. In an effort to reduce further its dependence on imported oil, the Indian government is accelerating oil exploration and development and has invited foreign firms to participate. The level of oil imports in the second half of the decade will ultimately depend on the success of these efforts. However, just with the projected increase in output from existing fields, oil imports in volume terms are likely to be held below the record level of 1980-81 through at least 1984-85.

Singapore proceeding with restructuring its monetary bureaucracy.

The Monetary Authority of Singapore (MAS), which functions as Singapore's central bank, is still engaged in a major restructuring and restaffing. A major objective of the reorganization is improved management of Singapore's huge reserves of foreign exchange, securities, and other assets, which are estimated at as high as $20 billion. A new entity, the Government of Singapore Investment Corporation (GSIC), has been created, and it will be independent of the MAS within a few months. A substantial portion of MAS assets will be turned over to GSIC for management, although the MAS will continue to manage a substantial amount of assets as reserves to support the value of the Singapore dollar. With the new reserve-management system in place, the MAS will turn its attention to enhancing Singapore's sophistication as a financial center. MAS officials are intent on catching up with Hong Kong in the loan-syndication business and aim to make Singapore a more important center for money markets and foreign-exchange trading.

Saudi external surplus ballooned in 1980; more modest growth seen for 1981.

Saudi Arabia's current-account surplus widened sharply to an officially reported $35.2 billion in 1980 from $10.4 billion in 1979. Although import costs climbed by 32% last year to over $71 billion, gross export revenues soared by nearly 69% to $95.4 billion. The oil windfall was partly the result of a 4% rise in oil production to an average of 9.9 million barrels per day. But the primary reason was a sharply higher oil export price. Saudi light crude last year was priced at an average $28.67 per barrel, compared with $17.26 per barrel in 1979. In addition, income from official holdings of assets invested overseas (about $100 billion as of the end of 1980) reached nearly $7.5 billion last year, up sharply from $4.9 billion in 1979. The current-account surplus in 1981 is expected to expand once again, but more modestly. The $32 per-barrel price of Saudi light—instituted in November 1980—will most likely continue in force through yearend. And oil output is expected to average 9.8 million barrels daily. Consequently, gross oil revenues in 1981 are projected at $110 billion, while services exports are projected at $16 billion. Taking into account the U.S. dollar's strength this year, which has improved Saudi Arabia's terms of trade, expenditures on imports and transfers could increase by 21% to $86 billion. Based on these assumptions, a 1981 current-account surplus of some $40 billion is seen.

Prospects for Wage Moderation

After a three-month interlude, during which seasonal adjustment problems held the reported rate of unemployment down, the rate rose to 7.5% in September, returning to the plateau it has been on since the spring of 1980. While this high level of unemployment is undesirable in the long run, there are signs that it is having a moderating effect on wage demands. Such moderation would be of great importance to the Federal Reserve in its anti-inflation fight. But the wage restraint has not yet proven to be widespread.

The Fed attempts to peg growth in nominal incomes by fixing and adhering to specific money growth targets. How much of this rise in nominal income translates into real income gains is determined by the pricing behavior of firms and the wage demands of individuals. If wage demands do not moderate in the face of increasingly restrictive monetary targets, higher unemployment results, and real income falls.

The persistent high level of unemployment has, however, begun to lower nominal wage demands. The latest data show that the year-over-year increase in the hourly earnings index fell to 8.8% in July from its peak rate of 10% in January. In addition, moderating inflation, as measured by the Consumer Price Index, has also slowed wage increases by yielding workers smaller cost-of-living adjustments. Nonetheless, the wage moderation seen to date is not dispersed throughout the U.S. labor market.

Thus far, the manufacturing sector—where employment fell 400,000 in September while total U.S. employment was up—has shown the greatest decline in wage gains, among both union and non-union workers. Conversely, in the retailing and service sectors, where employment growth has been well above average, wage gains have either accelerated or remained steady.

The combination of continuing high unemployment and slower inflation is likely to restrain several major 1982 collective bargaining settlements and affect wage demands among non-unionized workers as well. Negotiations for 1¼ million union workers in trucking, autos, rubber, farm machinery, and textiles and clothing will likely be influenced by higher-than-average rates of unemployment and by declining union membership.

But critical to the Fed's monetary strategy is whether wage demands ease in currently less-distressed sectors such as electrical machinery and meat packing, and in non-manufacturing sectors such as retail trade. If they do, the groundwork will be laid for a less inflationary business expansion. If not, and if the Fed sticks to its very restrictive policy stance, the slump in the U.S. economy may widen to these sectors.

Whither Monetary Policy?

A great deal of uncertainty currently exists regarding whether the Federal Reserve will ease monetary policy in the near term. Furthermore, there is confusion over the extent to which—or even if—the Federal Reserve has "eased" in recent months. This confusion in part stems from different uses of the term "monetary ease."

According to one view, an easing in monetary policy occurs when actions by the Fed stimulate the growth of the money stock. Advocates of this view argue that the behavior of the money stock is a major determinant of total spending, and this serves as an indicator of the thrust of monetary policy. There is no consensus among these advocates, however, on whether recent monetary policy has been "easy" or "tight."

For those who believe the narrowly-defined money supply is the relevant monetary indicator, policy has clearly been tight, since the growth of this measure has been weak over the past few months. Those who think that broader measures of money or credit are the appropriate indicators, however, come to a different conclusion, since these measures have continued to grow fairly rapidly.

Finally, those who look at measures such as bank reserves or the monetary base as indicators of monetary policy may not agree over the recent thrust of policy. According to Federal Reserve Board figures, total bank reserves adjusted for changes in reserve requirements grew at a seasonally adjusted annual rate of about 12% from June to September. According to figures compiled by the Federal Reserve Bank of St. Louis, however, adjusted bank reserves grew at an annual rate of only 2% over this period.

According to a different view, and one generally held in the financial markets, an "easing" in monetary policy means some action by the Fed that leads to, or is expected to lead to, a decline in the Federal funds rate. The markets, then, consider the behavior of the monetary aggregates as leading indicators of Fed actions. According to this view the Fed has clearly eased, in that its apparent reserves targets (along with its discount rate policy) have been consistent with much of the recent decline in the funds rate.

Thus, market participants, economists, and monetary policymakers often mean quite different things when they say "policy has eased." In this regard, it is important to recognize that Fed officials are usually not referring to interest rates when they say that monetary policy will remain "tight." In other words, "tight" policy can be associated with rising, falling, or stable interest rates.

Unfortunately, the Fed's precise definition of "tight" remains elusive. This, combined with the recently divergent behavior of various monetary aggregates, makes it extremely difficult to gauge the interest rate implications of statements by Fed officials that policy will remain "tight."

Asia and Oceania — Bimonthly Survey of Business and Finance

COUNTRIES	CURRENT BUSINESS CONDITIONS	EXPORTS		GNP IN 1980		BALANCE OF PAYMENTS						MONEY AND BANKING							COUNTRIES
												12-month changes				exchange rate in U.S. dollars	change from year earlier		
		6 months ending	12-month change	in billions of dollars	per capita	latest data	reserves (less gold) in million $	12-month change	months of imports covered	use of IMF credit, millions of dollars	current influences on payments	latest data	consumer prices	latest data	money supply(M1)	October 7, 1981		current monetary conditions	
Bangladesh	Interim government selling shares in public corporations and encouraging joint public/private ventures.	May	+10%	12.5*	$ 138	Aug.	136	— 15%	0.7	320	Trade deficit widening with deteriorating terms of trade.	July	+14%	May	+15%	.0650	— 4%	IMF drawing suggests domestic credit under control.	Bangladesh
Burma	Selection of new president this autumn may bring changes in economic policy.	June	— 3%	5.6*	174	Aug.	249	— 10%	7.4	44	Relatively heavy external borrowing begun in 1979 expected to continue.	June	— 4%	Oct.'79	+11%	.1400	— 9%	Pegged to SDR, kyat has depreciated against U.S. dollar.	Burma
China, People's Republic	Strong growth of light industry offsets decline in heavy industrial production.	June	+15%	242.2	246	June	3,822	+ 10%	2.4	510	Partial Japanese financing arranged for certain Japanese projects in China.	Dec.	+ 8%	June	+26%	.5700	—16%	Treasury bonds sold to reduce money supply growth.	China, People's Republic
Hong Kong	Stock market declines sharply from July peak; property market softens.	May	+29%	21.5	4,290	n.a.	—	—	—	—	Trade deficit widens as exports to EC weaken.	May	+14%	May	+19%	.1655	—17%	New credit curbs debated as HK dollar depreciates.	Hong Kong
India	Dry spell dims agricultural prospects, and resulting power cuts may constrain industry.	May	—20%	172.6*	257	May	6,242	— 13%	6.2	301	Reserves plummeting at almost double previous year's rate.	June	+14%	Apr.	— 7%	.1110	—11%	Banks to channel more credit to priority sectors.	India
Indonesia	Contracts for expansion of oil industry placed, despite softening demand.	Dec.	+25%	63.2	416	Aug.	5,917	+ 1%	5.6	0	Non-oil exports decline sharply, owing to lower commodity prices.	Aug.	+11%	May	+32%	.00161	—	Foreign assets of banking system still rising.	Indonesia
Japan	Package of measures to spur domestic economy likely to prove relatively ineffective.	July	+21%	1,044.0	8,940	Aug.	27,292	+ 22%	2.2	0	Imports of oil and manufactures to rise to avert trade friction.	Aug.	+ 4%	July	+ 7%	.004371	— 6%	Japanese interest rates to follow U.S. rates down.	Japan
Korea	Industrial production recovering from slump, but machinery, chemicals, and auto sector lag.	July	+27%	57.8	1,513	July	2,337	— 26%	1.0	1,074	Exports of electronics, textiles, steel, and ships lead recovery.	July	+26%	July	+12%	.001470	—11%	Exchange rate virtually steady since May.	Korea
Malaysia	Government acquisition of Guthrie Corp. signals acceleration in New Economic Policy.	Apr.	— 6%	22.8	1,697	June	3,951	— 7%	4.1	0	Low prices for major export commodities widening trade deficit.	June	+11%	Mar.	+14%	.4320	— 8%	Government refuses approval for some capital outflows.	Malaysia
Nepal	Agricultural growth of 20%, non-agricultural growth of 8.6% reported for fiscal 1980-81.	June	+58%	2.0**	142	June	186	+ 1%	5.7	22	Import duties on luxuries raised to reduce trade deficit.	June	+14%	June	+14%	.0800	— 5%	Exchange rate unified at 13.2 rupees per dollar.	Nepal
Pakistan	Government pursuing less lenient labor policies.	May	+32%	27.8*	336	Aug.	790	+ 64%	1.9	598	Modest additional measures taken to liberalize imports.	June	+15%	June	+19%	.1020	+ 1%	Credit conditions continue restrictive under IMF guidance.	Pakistan
Philippines	Central bank and government move to support financially weakened firms as recession continues.	May	+12%	35.1	726	Aug.	2,282	— 4%	3.3	845	Trade deficit widens because of low commodity export prices.	July	+13%	June	+18%	.1300	— 2%	Banking system stabilizing with strong central bank control.	Philippines
Singapore	Investment and economic growth trends little affected by stock market and property declines.	June	+11%	10.5	4,390	May	6,670	+ 9%	2.9	0	Oil-related industries expected to slow down as oil glut continues.	July	+ 9%	May	+20%	.4793	+ 1%	Investment flows strengthen Singapore dollar.	Singapore
Sri Lanka	Budget for 1982 expected to increase taxes to mobilize domestic resources.	May	— 3%	4.1	277	Aug.	236	— 28%	1.6	328	Jan.-May trade deficit only slightly above year earlier.	May	+18%	June	+ 9%	.0525	— 9%	Bank rate raised further to 14%.	Sri Lanka
Taiwan	New plan targets 8% economic growth rate; public works expenditure to rise.	Apr.	—12%	40.2	2,278	May	3,008	+111%	1.7	0	Lower oil prices help offset decline in exports to some markets.	May	+19%	May	+14%	.0280	+ 2%	Small August devaluation to have minimal impact.	Taiwan
Thailand	Government restrains increase in minimum wage to 13%, despite labor protests.	June	+ 7%	32.2	693	Aug.	1,391	— 31%	1.6	485	Opening of gas pipeline expected to cut oil imports 20%.	July	+12%	Feb.	+ 7%	.0450	— 6%	July 15 devaluation should aid exports.	Thailand
Australia	Centralized wage-fixing system abandoned; labor market resorts to supervised collective bargaining.	June	+ 2%	137.9	9,435	Aug.	2,153	+ 46%	1.0	0	Government promotes greater local participation in resource projects.	June	+ 9%	June	+12%	1.1535	— 2%	Capital inflows slow, responding to government policies.	Australia
New Zealand	Synthetic fuels project valued at $1 billion given green light.	June	+ 9%	21.2*	6,714	Aug.	369	— 11%	0.8	73	Surplus U.S. butter bought to prevent world glut and fall in export price.	June	+15%	June	+ 6%	.8315	—15%	Federal budget deficit to expand in fiscal 1981-82.	New Zealand

*Fiscal year **1979

World Interest Rates

market rates as Oct. 7, 1981; bond yields as of Oct. 2, 1981

in percent per annum	U.S.	Canada	Britain	Belgium	France	Germany	Italy	Netherlands	Switzerland	Japan
Central Bank Discount Rate	14.00 penalty-large banks 17.00	19.60	16.00	13.00	9.50	7.50	19.00 penalty rate 22.00	9.00	6.00	7.25
Day-to-Day Money	14.00 Oct. 8	20.00	15.50	14.75	18.50	12.00	20.125	12.625	7.50	7.4375
Treasury Bills 91-day, Middle Rates	13.88 discount basis	18.80	15.4375	15.75	18.30 1 year	n. a.	18.001 84-day	no dealing	no market	5.625 two-month
Commercial Paper prime, 3-month, asked	14.50 finance paper discount basis	18.95 finance paper 15% tax w/h	14.16	12.90 Certified	17.625 Interbank	no market	no market	no market	no market	not traded
Bankers' Acceptances 3-month, asked	14.55	18.85 15% tax w/h	15.4375	12.90 Certified	not traded	9.90	22.10	no market	10.375	no market
Government Bonds Long-term, new and old issues, average yield	15.16	17.25	15.81	10.1375 20% tax w/h	16.84	10.49	20.74	12.36	6.12	8.471
Industrial Bonds prime, long-term, new and old issues, average yield	15.90 Aa Industrials	17.75	17.16	17.07	17.93	10.95	21.02	13.61	6.9625	7.27
Bank Short-Term Rate to Best Borrowers (prime rate)	18.50 Oct. 8	18.875	17.00	18.00	19.50	14.50	22.50 ½ quar'ly fee on outstdng.	14.50	10.50	6.75
Bank Time Deposits 3-month	15.125 Cert. of Dep.	18.75	16.125	15.00	17.625	12.10	10.75	12.50 large deposits	10.25 rasidents only	4.25 20% tax w/h
Eurocurrencies 3-month, asked	16.25	no market	16.50	no market	21.625	11.50	no market	12.4375	10.50	no market
Exchange Rates—in U.S.$ rates floating against the $	—	.8332	1.8780	.0268	.1795	.4500	.000846	.4073	.5320	.00437
Forward Exchange Cover 3-month, in percent p.a. *D* = discount, *P* = premium	—	3.00 *D*	.15 *D*	6.50 *D*	5.40 *D*	4.70 *P*	8.00 *D*	4.00 *P*	5.65 *P*	8.80 *P*

Eurodollar Deposits
(London, interbank, bid)
October 8

7-day	14.00
1-month	15.3125
3-month	16.25
6-month	16.50

International Arbitrage
(3-month, hedged) + *in favor of U.S. dollars*

U.S.-U.K. Treasury Bills	−1.196
U.S.-Canada Treasury Bills	−0.84
U.S.-Canada Finance Co. Paper	−1.19
Eurodollars-U.K. Local Auth. Deposits	+0.213

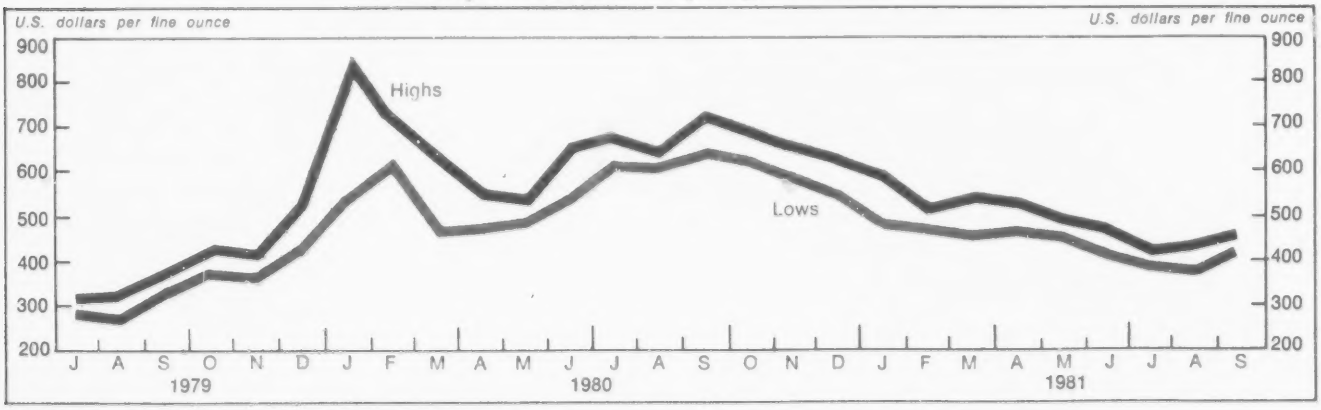
Eurobonds
(average yield on recent straight debt issues)

U.S. Dollar Bonds	
7 yrs. and under	16.75
Over 7 yrs.	17.00
DM Bonds	
7 yrs. and under	10.75
Over 7 yrs.	10.50

Gold Price
London afternoon fixing
445.50
(per fine ounce)

The above interest rate quotations refer to the past week and may not be construed as offers by The Chase Manhattan Bank. The quotations for Bank Short-Term Rate to Best Customers, while including customary commissions, reflect neither possible other fees nor varying compensating balance requirements.

Gold prices: monthly highs and lows*



* London afternoon fixing

Updating the Gold Market

Gold prices appear to have firmed up in recent weeks after dipping below $400 an ounce in August, and traders are hopeful that the long bear market (see chart, page 6) has finally run its course. Appearances, however, can be deceiving, and a further price plunge cannot be ruled out. To be sure, the fundamental balance between new supplies and expected demand suggests long-term strength in gold prices. However, the fundamentals can easily be swamped—as they have been throughout much of the past two years—by world economic and political developments.

Gold specialists generally agree that supplies of newly mined gold will remain tight over the next decade. Production in South Africa, which supplies about three-fourths of the gold mined in the non-Communist countries, peaked in 1970 at around 1,000 metric tons and has been sliding ever since. It fell to 675 tons last year from 703 tons in 1979, as mining companies turned increasingly to areas of lower-grade ore. Despite efforts to improve productivity and develop new technology, South African gold production is not likely to rise much above current levels during the 1980s, even if prices move substantially higher. And in the absence of major new discoveries, mine output in other parts of the world cannot pick up the slack.

Other traditional sources of new gold supplies to the private sector will also be limited in the near term. According to Consolidated Gold Fields Ltd. of Britain, net sales from Communist countries fell to 90 tons in 1980, the lowest level since 1971. Predictions for 1981 Soviet gold sales range from 80 to 130 tons, far below the average for the 1970s. Moreover, there has been a sharp reversal in the trading patterns of governments and central banks, which were large net suppliers of gold to private markets throughout most of the 1970s. Central banks, especially in the less-developed countries (LDCs), have become large purchasers of gold. Official institutions were net buyers of 230 tons in 1980—a pattern that is likely to continue.

On the demand side, total fabrication from new gold supplies fell sharply in 1980 and has not picked up materially in 1981. The increase in private holdings of carat jewelry rose only by 120 tons last year—substantially below recent trends. Part of this fall-off can be attributed to one-shot "dishoarding" in the form of melted jewelry, especially in the LDCs, as prices soared to record highs. But long-term demand for fabricated gold for such applications as electronics and dentistry is also diminishing, as advances in technology permit substitution of lower-cost metals and reduction of gold content per unit.

Nevertheless, overall demand is likely to strengthen. Speakers at the Amcon Group's 1981 gold seminar in late September said they expect the gold market to be buoyed in the 1980s by the re-entry of portfolio investors and large institutions, whose demand has been weak over the past two years. The massive dishoarding and inventory liquidation of 1980-81 appear to be over, and gold-price optimists are counting on a strong boost from U.S. and Japanese investors, along with continuing heavy demand from LDC central banks. Political attention to a restoration of the gold standard should also help to strengthen prices. And of course, another sharp upsurge of inflation or political instability could spark a massive reflow of investment funds back into gold.

The big imponderable in the gold equation, however, is the sizable overhang of "above-ground" gold stocks, estimated at about 90,000 tons, or almost a century's worth of Western gold production at current mining rates. About half of this overhang is thought to be in private hands, and much of it remains poised to flood the market and drive gold prices down if clear signs emerge that U.S. anti-inflation efforts are succeeding and that the world political scene will remain reasonably stable.

Ronald A. Krieger

GOLD FLOWS

Components of Supply (metric tons)

	Non-Communist mine output	Net trade with Communist bloc	Net official sales (purchases)	Total
1971	1,236	54	96	**1,386**
1972	1,182	213	(151)	**1,244**
1973	1,117	275	6	**1,398**
1974	1,006	220	20	**1,246**
1975	954	149	9	**1,112**
1976	970	412	58	**1,440**
1977	972	401	269	**1,642**
1978	979	410	362	**1,751**
1979	961	199	544	**1,704**
1980	943	90	(230)	**803**

Components of Demand (metric tons)

	Total fabrication			Net private bullion purchases (sales)	Total
	Carat jewelry	Official coins	Other		
1971	1,064	54	269	(1)	**1,386**
1972	999	63	282	(100)	**1,244**
1973	518	54	287	539	**1,398**
1974	225	287	223	511	**1,246**
1975	523	251	209	129	**1,112**
1976	935	182	266	57	**1,440**
1977	1,003	142	274	223	**1,642**
1978	1,007	288	301	155	**1,751**
1979	737	290	288	389	**1,704**
1980	120	234	167	282	**803**

Data: Consolidated Gold Fields Ltd.

Ivory Coast Pursuing Balanced Growth

The pace of economic growth continues to slow in Africa's Ivory Coast, while the country's current-account deficit widens and external debt grows more onerous. But the prospect of self-sufficiency in oil output by 1985, conservative economic management, and a liberal foreign investment code are attracting strong capital inflows and promise a reacceleration of economic growth beginning in 1982.

The Ivory Coast's $10.5-billion economy has suffered the sharp terms-of-trade deterioration common to most of the world's agrarian-based developing countries over the past 2-3 years. As an important world producer of coffee, cocoa, and timber, the country enjoyed an average annual real GDP growth of 8.9% during the 1976-78 world coffee and cocoa boom, with manageable deficits on current account. Growth subsequently slowed to 5.2% in 1979, owing largely to depressed world commodity export markets, and the current-account deficit widened substantially.

Ivorian export prices continued weak in 1980, with average coffee and cocoa bean prices down 11% and 20%, respectively, from their 1979 levels. Industrial growth, which since independence in 1960 has been steady (so that industry's 22% contribution to GDP now almost equals that of agriculture), also appears to have slowed because of cutbacks in public investment that reflect a broadly restrictive fiscal stance. And although crude oil production from offshore deposits began on a modest scale in August 1980, with a major expansion of refining capacity under way, inflation-adjusted GDP growth is believed to have slowed further last year.

The Ivory Coast's economy found itself in severe financial difficulty at the end of 1980, owing to a significant terms-of-trade worsening and a liquidity squeeze in the second half of the year. As a result, the International Monetary Fund on March 3, 1981, approved a three-year Extended Fund Facility loan of $630 million to support economic and financial stabilization. The conditions attached to the loan are relatively mild, in recognition of the Ivorian government's sustained budgetary austerity (restrictive budgets were adopted in 1979 and in 1980 under a previous IMF-sponsored program) and the country's oil potential. And the retrenchment course chosen attests to the authorities' preference for putting the domestic economy in order rather than borrowing further in anticipation of oil revenues.

If the terms of the latest IMF program are implemented fully, the Ivorian budget deficit would be cut to 6.2% of GDP by 1983 (from 15.2% in 1980) and the current-account balance-of-payments deficit halved. The program places special importance on boosting the productivity of investment, with the goal of redirecting industrial investment from import substitution to export-oriented activity. In pursuit of this goal, the authorities are expected to liberalize further the Ivory Coast's already liberal foreign investment code. The stabilization plan is also aimed at boosting domestic private savings and utilizing them more productively.

Finally, the IMF-sponsored program underscores the Ivory Coast's long-standing priority of diversifying agricultural exports by further encouraging new crops. Agricultural policy has consistently stressed the introduction of new crops to lessen the vulnerability of exports to price fluctuations and to limit food imports in the face of rapid population growth. Still, coffee and cocoa accounted for about 56% of total exports in 1980.

Economic performance in 1981

Not surprisingly, the economy has remained sluggish this year. The combination of reduced government spending, continued export price weakness, and liquidity tightness point to a sharp slowdown in the rate of real economic growth in 1981, with the possibility of a contraction. The recession, which is essentially investment-led, is mainly affecting the urban sector. Agriculture is being buoyed by record coffee and cocoa crops.

On the external front, a projected improvement in the trade surplus, the result of a progressive rise in oil production and higher export volume, will be offset by higher invisibles payments. Services outflows are high because of interest payments on a disbursed foreign debt of nearly $4 billion (40% of GDP) and heavy outward remittances of foreign workers. As a result, the current-account deficit is likely to widen to about $1.7 billion from $1.5 billion in 1980. The overall payments deficit could narrow this year, however, in anticipation of increased capital inflows.

The oil bill, which reached some $500 million last year, is expected to fall to $400 million in 1981 and to decline steadily as domestic production increases. It is projected that the Ivory Coast will become a net oil exporter in 1983, with oil output by 1985 forecast to reach 220,000 barrels per day. While oil export receipts will reduce the Ivory Coast's external deficits, a current-account surplus is unlikely before 1985-86, on the assumption of sustained cocoa and coffee price weakness.

In sum, the pace of real GDP growth is expected to bottom out in 1981, with the start-up of oil production pointing to a reacceleration in growth in 1982, and a possible mini oil boom thereafter. The promising outlook for petroleum exports and the IMF-fostered economic austerity suggest improvements in the Ivory Coast's large current-account deficits and high external debt burden. And the country's progress on the agricultural, industrial, and energy fronts promise balanced growth as the decade unfolds. *Wally V. Koch*